

## **Appendix 2**

### **State Price Cap Rules**

## State Price Cap Plans

The following Appendix provides summaries of state price regulation plans for each of the states in BellSouth's region. As noted in the Petition, each of these states had the foresight to recognize that ratemaking for intrastate services was better served through the implementation of price regulation.

Over a few years' period in the mid-1990's, each of the states replaced rate-of-return regulation with price cap regulation that is very similar to the price cap plan the Commission implemented for interstate rates.<sup>1</sup> These plans, like the Commission's plan, no longer rely on cost information or rate of return for ratemaking purposes, but instead regulate prices. Thus, state commissions no longer rely on, use, or even need the information that is generated by the rate-of-return rules.<sup>2</sup>

### a. Alabama

Price cap regulation in Alabama is a product of both legislation and Alabama Public Service Commission ("APSC") action. During its 1995 regular session, the Alabama Legislature passed legislation that removed any uncertainty about the APSC's authority to adopt alternatives methods of regulation.<sup>3</sup> Subsequently, BellSouth filed its initial price regulation plan ("initial

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<sup>1</sup> Currently, just as in the Commission's plan, all of the states in BellSouth's region are under pure price cap plans with no sharing and no LFAM capabilities.

<sup>2</sup> As noted in summaries below, even though all states in BellSouth's region are under price cap regulation, three states, Kentucky, Louisiana, and Mississippi, still have some intrastate cost reporting requirements. BellSouth, however, can meet these requirements internally without the Commission mandating that BellSouth follow its cost allocation or separations rules. Indeed the information to be filed can be gathered through targeted and specific analysis and the need for a structured process as is required for compliance with Part 64 and Part 36 rules is unnecessary. BellSouth will continue to meet these states' reporting requirements through these internal means.

<sup>3</sup> Ala. Code § 37-1-80 (2005).

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plan”), which the APSC approved on September 20, 1995.<sup>4</sup> The initial plan created three baskets of services – Basic, Non-Basic and Interconnection services; required specific rate reductions over a five-year period; froze certain rates for a specified period; and provided pricing flexibility for Non-Basic services. The plan remained in effect until late 2004.

On December 27, 2004, the Commission approved a new price regulation plan for all providers (“new plan”).<sup>5</sup> The new plan established a price regulation plan for each type of local exchange carrier (“LEC”) in the state. For BellSouth, the new plan created two types of services, Retail and Interconnection services. The new plan divided BellSouth’s service area into three Tiers. Tier I MSAs are the largest metros in the state; Tier II MSAs are the smaller urban areas; and Tier III encompasses the most rural areas of the state. With only a few exceptions, BellSouth may adjust prices at its discretion for Retail services in the Tier I service area. Prices for Retail services in the Tier II service area can be increased up to 15% for the first two years, 20% in years 3 and 4, and 25% per year thereafter. Prices for Retail services in the Tier III service area can increase up to 5% in the first two years, 10% in years 3 and 4, and 15% per year thereafter.

For BellSouth, the APSC’s order approving the new plan requires that the price for any new or existing service shall equal or exceed its total service long run incremental cost (“TSLRIC”) unless specifically exempted by the APSC, or BellSouth, in good faith and upon APSC approval, prices the service in order to meet the equally low price of a competitor. The

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<sup>4</sup> *Petition of South Central Bell Telephone Company to Restructure its Form of Regulation; All Telephone Companies Operating in Alabama, Generic Hearing on Local Competition; Streamlined Regulation of Interexchange Carrier and Reseller Telecommunications Services; Complaint Filed by AT&T Communications of the South Central States, Inc. Against South Central Bell on April 25, 1995, Docket Nos. 24499, 24472, 24030 & 24865, Report and Order, 1995 Ala. PUC LEXIS 571 (Sept. 1995).*

<sup>5</sup> *Proposed Revisions to the Price Regulation and Local Competition Plan, Docket No. 28590, Order Approving Alabama Telecommunications Regulation Plan, 2004 Ala. PUC LEXIS 556, 240 P.U.R.4th 271 (Dec. 27, 2004).*

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APSC may also utilize a surrogate for a TSLRIC study if none exists for a service.<sup>6</sup> The APSC does not require that BellSouth file cost support with tariff filings, but to make it available if requested. It does require a summary of costs for each contract service arrangement (“CSA”) in the required monthly report of CSA activity.<sup>7</sup>

The new plan calls for elimination of rate groups and consolidation of 1FR and 1FB services to single statewide average prices. The new plan also provided significant regulatory flexibility for promotions, marketing and technical trials, and bundled services. Finally, the APSC’s Order approving the new plan removed all requirements for annual financial reporting.

The APSC collects a regulatory assessment fee. The amount of this fee is based on a percentage of intrastate revenue.<sup>8</sup>

Additionally, the Alabama Legislature has recently approved legislation deregulating the retail telecommunications market.<sup>9</sup> The legislation prohibits the APSC from requiring information, accounting reports, or a system of accounts different than what is required by the Commission. Effective August 1, 2006, the APSC will no longer have jurisdiction over new contracts or bundles sold after August 31, 2006. Except as noted below, effective March 1, 2007, the APSC will no longer have jurisdiction over tariffed retail services and bundles sold

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<sup>6</sup> As noted in several of the summaries below, some states continue to require that the price for new intrastate services must equal or exceed the long run incremental costs (“LRIC”) or the total service long-run incremental costs (“TSLRIC”). This requirement, however, has no bearing on the Commission’s decision here because none of the cost assignment rules are necessary for the calculation of LRIC or TSLRIC. The costs used in a LRIC and a TSLRIC model are forward-looking costs.

<sup>7</sup> BellSouth can provide this limited information without being subject to the cost allocation and cost separations rules.

<sup>8</sup> The Petition does not affect revenue accounts, only the cost accounts. Thus, BellSouth’s ability to provide revenue figures on an interstate or intrastate basis is not affected by this petition. Although intrastate revenue will no longer be filed as a part of ARMIS, BellSouth can provide intrastate revenue to any state commission on an as-requested basis.

<sup>9</sup> Ala. Code §§ 37-2A-1 *et seq.*

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prior to August 31, 2006. The APSC will only have jurisdiction over 1FRs, 1FBs to a customer with fewer than five lines, and *a la carte*, optional features offered prior to enactment of the legislation, but it will not regulate the prices for these services. The APSC will retain jurisdiction over wholesale services.

### **b. Florida**

Effective July 1, 1995, the Florida legislature passed legislation establishing price cap based regulation for telecommunications carriers. The statute defines two baskets of services – Basic and Non-Basic. Basic service provides voice grade, flat rate residential and flat-rate single-business local exchange service. All other services are considered Non-Basic.

The statute placed an initial five-year freeze on rates for Basic services. After this initial freeze, rates for Basic services were capped at an annual rate of GDP-PI less 1%. Rates for Non-Basic services could increase up to 6% of basket revenues until there was another provider of local telecommunication exchange service and then rates for Non-Basic services could increase up to 20% of basket revenues. BellSouth's rates for its Non-Basic services are under a 20 % cap.

In 2003, the Florida Legislature enacted the Tele-Competition Innovation and Infrastructure Enhancement Act ("Florida Act"). The Florida Act grants the FPSC authority to allow ILECs to reduce their intrastate access charges to interstate levels, and to make offsetting increases in local service rates if the FPSC deemed that it would further the Legislature's goal of increasing competition in the local telephone market. The FPSC approved this measure on December 24, 2003.<sup>10</sup>

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<sup>10</sup> *Petition by Verizon Florida Inc. to reform intrastate network access and basic local telecommunications rates in accordance with Section 364.164, Florida Statutes, et al.*, Docket Nos. 030867-TL, 030868-TL, 030869-TL & 030961-TL, Order No. PSC-03-1469-FOF-TL, *Order on Access Charge Reduction Petitions* (Fla. Pub. Serv. Comm'n Dec. 24, 2003).

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Pursuant to the Florida Act, the FPSC has continued oversight to ensure that a price cap carrier does not cross subsidize Non-Basic services with revenues from Basic services. The statute also requires that the price charged to a consumer for a Non-Basic service shall cover the direct costs of providing the service and shall impute the charges for any monopoly component. The FPSC has performed these oversight functions, however, without relying on any information generated from the cost allocation and separations rules.<sup>11</sup>

Consistent with the purpose of the price cap legislation, the FPSC's attention is focused on the prices that consumers pay for BellSouth's services and not BellSouth's cost for the service. The FPSC does not require BellSouth to file cost information with tariff filings, including promotions filings, but such information must be available to the FPSC upon request.<sup>12</sup>

The FPSC collects a local exchange company regulatory assessment fee. The amount of this fee is based on a percentage of a slightly modified gross intrastate revenue amount.<sup>13</sup>

### **c. Georgia**

The Georgia legislature has also enacted legislation adopting price cap based regulation for telephone companies in that state. Pursuant to the election provision of the statute, BellSouth filed its notice of election to be regulated under price caps effective August 5, 1995.

The statute created two types of services – Basic and Other. The statute defines Basic local exchange services as the provision of a touch tone switched access line and dial tone services to residential and single line business customers. Rates in effect for Basic services prior

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<sup>11</sup> To the extent that the FPSC needs any information from BellSouth to investigate such matters after the Commission granted forbearance, it could request the needed information from BellSouth.

<sup>12</sup> In the event a PSC requested this type of cost support, BellSouth can provide it through targeted analysis without being subject to the cost allocation and cost separations rules and processes they require.

<sup>13</sup> See *supra*, note, 8.

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to election were deemed just and reasonable and established a maximum cap that carriers could charge for these services for a five-year period.<sup>14</sup>

After this initial five-year period, rates could be adjusted for inflation subject to an inflation-based cap. The cap is set as the greater of (a) one half of the percentage change in the GDPPI for the preceding year when the percentage change in GDPPI exceeds 3% or (b) the percent change in GDPPI minus 2 percentage points. Price increases for Basic services within the price cap range are deemed presumptively valid. Local exchange companies can price Other local exchange services on a basis that does not unreasonably discriminate between similarly situated customers.

There are no requirements to file costs or that a regulatory case be proved to the Georgia Public Service Commission (“GPSC”) in order to increase prices for existing services. If a price increase is sought, BellSouth prepares and maintains a high level financial analysis including costs. This financial information is made available to the GPSC upon request. The GPSC has seldom requested this information, however, and therefore, it generally has not been filed with the GPSC.<sup>15</sup> In fact, the GPSC staff’s regulatory focus is on the prices customers must pay and other customer issues including customer complaints, billing issues (slamming and cramming), and public safety issues, not on the cost of service provided.

Tariff filings for new services must include an estimated first year “net revenue” impact statement, which includes a numerical demonstration that the prices are above TSLRIC.<sup>16</sup>

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<sup>14</sup> Ga. Code Ann. § 46-5-166(b).

<sup>15</sup> In the event the GPSC requested this type of cost support, BellSouth can provide it through a targeted analysis. BellSouth does not need to be subject to the broad, region-wide cost allocation and cost separations rules, and processes they require, in order to produce state specific data requested by any state commission.

<sup>16</sup> See *supra*, note, 6. Significantly, on October 20, 2005, the GPSC granted BellSouth’s petition to de-tariff all services other than 1FR and 1FB basic local exchange services.

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The GPSC collects “PSC Fees” from carriers based on a formula in which the starting point is intrastate revenues.<sup>17</sup>

### **d. Kentucky**

Price cap regulation is a product of a commission-approved plan in Kentucky.<sup>18</sup> BellSouth’s original price regulation plan (“original plan”) became effective July 20, 1995. The original plan established three baskets of services – Non-Competitive or Basic, Interconnection and Competitive services. The original plan capped Basic services at the existing rates for three years. After the three-year period, the cap for Basic services was tied to an inflation formula with a 4% productivity factor. Additionally, no individual Basic service in the basket could be increased greater than 10%. Competitive services had no pricing limitations. The original plan required BellSouth to file cost studies to support all tariff changes and new services.<sup>19</sup> Additionally, BellSouth files quarterly (“Quarterly Income Statement”) and annual financial reports (“Form T”) with the KPSC based on current USOA accounts and structure.

This Quarterly Income Statement provides quarterly and annual income statements for BellSouth ILEC’s intrastate operations in Kentucky while the Form T is an annual report of BellSouth ILEC’s total operations in Kentucky. The Form T is similar to the ARMIS data filed with the Commission.

Even though BellSouth has these reporting requirements in Kentucky, continuation of the costs allocation and costs separations rules are not needed for BellSouth to meet those requirements. BellSouth can determine these results and meet its Kentucky filing requirements without the imposition of region-wide federal rules. These limited reporting requirements should

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<sup>17</sup> See *supra*, note 8.

<sup>18</sup> See Ky. Rev. Stat. Ann. § 278.512 (2004).

<sup>19</sup> BellSouth can provide this information through targeted analysis without being subject to the cost allocation and costs separations rules and processes they require.



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not impede forbearance because they can, and will, be met by BellSouth for that state through independent analysis and preparation.

The KPSC subsequently reviewed the original plan, and adopted changes that allowed BellSouth to adjust prices of its retail services toward incremental costs based on market prices; removed the productivity factor; changed infrastructure commitments, including broadband; established a new Economic Zone Discount tariff; provided further switched access reductions; provided basic rate increases; eliminated the non-traffic sensitive revenue requirement (“NTSRR”) access charges; and made other rate changes.<sup>20</sup> The KPSC adopted these changes as a three year pilot plan. The KPSC later made the plan permanent with a formal review in 5 years.<sup>21</sup>

All services must cover LRIC except that BellSouth may in good faith file for prices below LRIC to meet the equally low price of a competitor.<sup>22</sup> Moreover, the plan requires BellSouth to file cost information for all rate changes except those switched access rates that mirror comparable rates in the interstate tariff.<sup>23</sup>

The KPSC collects a regulatory assessment fee. The amount of this fee is based on a percentage of intrastate revenue.<sup>24</sup>

### **c. Louisiana**

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<sup>20</sup> *Review of BellSouth Telecommunications, Inc. 's Price Regulation Plan*, Case No. 99-434, *Order* (Ky. Pub. Serv. Comm'n Aug. 3, 2000).

<sup>21</sup> *The Review of BellSouth Telecommunications, Inc. 's Price Regulation Plan*, Case No. 2003-00304, *Order*, 2004 Ky. PUC LEXIS 512 (June 29, 2004).

<sup>22</sup> *See supra*, note, 6.

<sup>23</sup> Just as with the reporting information in Kentucky, continuation of the cost allocation and cost separations rules are not necessary for BellSouth to provide the cost data for a tariff filing. BellSouth can calculate and retain this information on an internal basis without the requirements of these rules.

<sup>24</sup> *See supra*, note 8.

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Price cap based regulation is a product of a commission-approved plan in Louisiana. The Louisiana Public Service Commission (“LPSC”) adopted the first price regulation plan for BellSouth effective April 1, 1996. The plan was subsequently modified by LPSC Order dated February 20, 2004 (“revised plan”).

The revised plan created four baskets – Universal Service, Basic, Interconnection and Competitive. The Universal Service basket contains residential and single line business and affordable line connections charges for low-income customers. Up until 2006, the rates for the Universal Service basket are capped, except that limited increases to these services were permitted to allow their movement from Rate Group Specific rates to a single statewide rate for such services equal to the highest of the Rate Group rate levels. In 2006, BellSouth can convert its pricing for these services to an unbundled network element (“UNE”) zone structure and move 1FRs and 1FBs and other local access offerings (LOS-B) in UNE zone 1 from the Universal service basket to the Basic basket. Funding to support universal services shall come from either a state USF or, in its absence by year 3, a 2.5% annual increase is allowed for this basket.

The Basic basket includes Trouble Determination Charges, 911/E-911 service, Basic Service Connection Charges, and other optional single line residential and single line business services. These services in the Basic basket as well as the services in the Interconnection Service basket have a 10% annual per service cap, while competitive services are market priced and have no rate cap.

The LPSC has set TSLRIC as a price floor for all regulated services, unless specifically exempted by the LPSC. BellSouth must file TSLRIC studies with all tariff filings for new Basic local services or decreases in Basic local service rates.<sup>25</sup> Moreover, BellSouth must currently provide a periodic income statement and balance sheet on a semi-annual basis, as well as other

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<sup>25</sup> See *supra*, note, 6.

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informational filings. As noted in the discussion of Kentucky above, Louisiana is under a price cap plan and therefore the information reported is not necessary, nor is its used, for ratemaking purposes. As with Kentucky, the Louisiana requirements are subject to change and could be eliminated just as they have in other states. However, these limited state reporting requirements in Louisiana should not impede the Commission from granting forbearance. BellSouth can continue to provide information currently filed with Louisiana without having to be subject to cost assignment rules. If forbearance is granted, BellSouth will continue to meet its filing obligations in Louisiana so long as such information continues to exist.

BellSouth reports revenues on an intrastate local, access and toll basis and pays a regulatory assessment fee to the LPSC, which is based on these revenues. Additionally, contributions to the state USF are based on intrastate revenues.<sup>26</sup>

### **f. Mississippi**

Price cap based regulation is a product of a commission-approved plan in Mississippi. The Mississippi Public Service Commission (“MPSC”) approved BellSouth’s Price Regulation Plan (“PREP”) on November 1, 1995<sup>27</sup> and it became effective January 1, 1996. The plan created three categories of services – Basic, Interconnection, and Other services. The Price Regulation Plan capped Basic service rates for three years. The Plan required the cap to be reduced annually by one percent. With some exceptions, Interconnection and Other services can be increased by 20% per rate element per year.

If requested by the MPSC, BellSouth must provide detailed cost information in support of tariff filings. However, unless an exception exists, the only costs components associated with

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<sup>26</sup> See *supra*, note 8.

<sup>27</sup> *Order of the Mississippi Public Service Commission Establishing a Docket to Consider Formulating a Properly Structured Price Regulation Plan for South Central Bell*, Docket No. 95-UA-313, Final Order (Miss. Pub. Serv. Comm’n Nov. 1, 1995).

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prices for services is that each new and existing service shall equal or exceed its LRIC.<sup>28</sup> Prices for retail services also must be sufficient to recover the contribution that it earns from the requisite access or interconnection services used by retail competitors plus its own incremental cost of supplying the retail service. BellSouth is also required to file quarterly and annual reports containing regulated and intrastate results. Consistent with the discussion in Kentucky and Louisiana, rates in Mississippi are also regulated under a price cap plan and therefore the financial information reported is not necessary for ratemaking purposes.

As with Kentucky and Louisiana, even with these state reporting requirements in Mississippi, the Commission should grant forbearance. BellSouth can provide any requested information for Mississippi without having to be subject to the federal rules. Indeed, just as in Kentucky and Louisiana, BellSouth can, and will, continue to meet its filing obligations in Mississippi if forbearance is granted.

The MPSC renewed the Plan on October 31, 2001 extending the Plan for six years. Significantly the MPSC stated “the regulatory flexibility provided through PREP has fostered an environment where, through the regulation of prices as opposed to earnings, BellSouth has become more market-driven and customer-focused, which is beneficial to both BellSouth and its customers.”<sup>29</sup> The MPSC approved modification of the PREP on June 24, 2004, which included the reduction in the number of rate groups, a reduction in the required notice for rate reductions, modification of certain performance measurements, and other changes.

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<sup>28</sup> See *supra*, note 6.

<sup>29</sup> Order of the Mississippi Public Service Commission Establishing a Docket to Consider Formulating a Properly Structured Price Regulation Plan for South Central Bell, Docket No. 95-UA-313, Order, at 3 (Miss. Pub. Serv. Comm’n Oct. 31, 2001).

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The MPSC collects a regulatory assessment fee. The amount of this fee is based on a percentage of intrastate revenue.<sup>30</sup>

### **g. North Carolina**

Price cap based regulation is a product of a commission-approved plan in North Carolina. The North Carolina Utilities Commission (“NCUC”) approved BellSouth’s price regulation plan (“initial plan”) on May 2, 1996.<sup>31</sup> The initial plan created 5 types of services – (1) Basic, (2) Non-Basic 1, (3) Non-Basic 2, (4) Interconnection and (5) Toll Switched Access.

The initial plan was revised and the revisions became effective on September 15, 2000. The modification to the initial plan reduced aggregate intrastate switched access rates by \$83 million; established new services objectives with self-enforcing penalties; established an enhanced infrastructure fund to further ADSL deployment; and limits increase in services.

The initial plan was revised again in 2003, to include new statutory provisions related to the decreased regulation of certain operator services and toll services,<sup>32</sup> and again in 2005.<sup>33</sup> The 2005 revision creates three baskets of services – the Moderate Pricing Flexibility, High Pricing Flexibility, and Total Pricing Flexibility baskets. Total PF basket of services and other business services in the High PF basket (with limited exceptions) will be detariffed on December 1, 2005. Bundles, packages, and new services were granted immediate pricing freedom and placed in the

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<sup>30</sup> See *supra*, footnote 8.

<sup>31</sup> *Application of BellSouth Telecommunications, Inc. for, and Election of, Price Regulation*, Docket No. P-55, SUB 1013, *Order Authorizing Price Regulation* (N.C. Utils. Comm’n May 2, 1996).

<sup>32</sup> *Application of BellSouth Telecommunications, Inc. for, and Election of, Price Regulation*, Docket No. P-55, SUB 1013, *Order Authorizing Price Regulation* (N.C. Utils. Comm’n May 2, 1996).

<sup>33</sup> *Application of BellSouth Telecommunications, Inc. for, and Election of, Price Regulation*, Docket No. P-55, SUB 1013, *Order Approving Modified Price Regulation Plan* (N.C. Utils. Comm’n Apr. 29, 2005).

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Total PF basket. They will be detariffed on December 1, 2005 also. Contract service arrangements are no longer filed with the NCUC.

The NCUC requires that prices for any individual rate element for any service offered by the Company shall equal or exceed its LRIC unless (1) specifically exempted by the Commission based upon public interest considerations, or (2) BellSouth in good faith prices the service to meet the equally low price of a competitor for an equivalent service.<sup>34</sup> The NCUC does not require cost analysis be filed with promotions or tariff filings but they must be available upon request.<sup>35</sup>

The NCUC collects a regulatory assessment fee. The amount of this fee is based on a percentage of intrastate revenue.<sup>36</sup>

### **h. South Carolina**

Price cap based regulation is a product of legislation in South Carolina. The South Carolina Legislature passed legislation establishing this form of alternative regulation for telecommunications carriers in 1996. Under this legislative plan, a carrier elects to be subject to alternative regulation. The carrier's existing rates, terms, and conditions for its regulated services are deemed just and reasonable on the date the carrier notifies the South Carolina Public

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<sup>34</sup> See *supra*, note 6.

<sup>35</sup> In the event a PSC requested this type of cost support, BellSouth can provide it through targeted analysis without being subject to the cost allocation and cost separations rules and processes they require.

<sup>36</sup> See *supra*, note 8. BellSouth is also required to file annual financial reports with the NCUC; however, these reports are based on total operations in the state and therefore forbearance from the Commission's cost allocation and separations rules will have no impact on these reports.

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Service Commission (“SCPSC”) of its election to be subject to the plan. BellSouth filed its election with the SCPSC on July 14, 1999. That election became effective August 13, 1999.<sup>37</sup>

The plan requires carriers to freeze flat rated local exchange service for residential and single-line business customers for 2 years from the date of election, after which such services can be adjusted by an inflation index. All other rates may be changed on a basis that does not unreasonably discriminate between similarly situated customers and does not constitute an abuse of market position. Additionally, during any given twelve-month period, the aggregate increases in the tariffed rates for other services must not exceed five percent of the aggregate revenues from tariffed other services during the prior twelve-month period. The plan requires tariffs to be filed for regulated services, but does not require that cost support be filed with the tariffs.

The SCPSC collects a regulatory assessment fee. The amount of this fee is based on a percentage of intrastate revenue. Additionally, contributions to the state USF are based on interstate and intrastate revenues.<sup>38</sup>

### **i. Tennessee**

In Tennessee, price cap based regulation is a result of legislative action. BellSouth elected price regulation in 1995, and BellSouth operates under price regulation today in Tennessee. The statute created three baskets of services – basic, non-basic and interconnection (a subcategory of non-basic). Rates for basic services were initially capped for four years. After expiration of the cap, basic rate elements could grow annually by the change in GDP-PI. However, the basket as a whole may not increase more than the lesser of GDP-PI minus 2% or

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<sup>37</sup> Letter to the Honorable Gary E. Walsh, From Caroline N. Watson, General Counsel – South Carolina, Notice of Election under S.C. Code Ann. § 58-9-576, July 14, 1999.

<sup>38</sup> See *supra*, note 8. BellSouth is also required to file annual financial reports with the SCPSC; however, these reports are based on total operations in the state and therefore forbearance from the Commission’s cost allocation and separations rules will have no impact on these reports.

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one-half GDP-PI. Non-basic rates are only limited by headroom<sup>39</sup> and can be raised by as much as headroom allows and the market will bear. The rates for interconnection services are similarly constrained like other non-basic services.

The statute also established a price floor for competitive services offered by an ILEC equal to the incumbents' tariffed rates for essential elements plus the total LRIC of the competitive elements of a service.<sup>40</sup> The regulatory agency may exempt a service or a group of services from the price floor requirement when shown to be in the public interest.

BellSouth is not required to file costs with either tariff filings or promotions. When applicable and requested by the authority, BellSouth provides information regarding costs to the TRA. The TRA uses intrastate revenue data to calculate the regulatory inspection fee.<sup>41</sup>

Additionally, Tennessee recently passed legislation deregulating the retail offering of combinations or bundles of telecommunications products or services.<sup>42</sup> The statute removes such offering from the TRA's regulatory jurisdiction, "whether or not such combinations or bundles of products or services are subject to a tariff or other regulatory filing with the TRA as of May 28, 2005, and whether or not comprised of products or services provided by a local exchange carrier alone or with another company."

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<sup>39</sup> Headroom is created by shifts in demand and/or changes in rates.

<sup>40</sup> *See supra*, note 6.

<sup>41</sup> *See supra*, note 8.

<sup>42</sup> Tenn. Code Ann. § 65-37-103(a)(1).